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SUBJECT: SWISS ELECTORATE REAFFIRMS TIES WITH EU; APPROVES $800 MILLION CONTRIBUTION TO NEW EU MEMBERS

Summary

1.(SBU) In what may be seen as a victory of pragmatism over enthusiasm, the Swiss electorate on November 26 approved a Swiss Government proposal to contribute one billion Swiss Francs (about $800 million) to the 10 new member states of the European Union. In a nation-wide referendum, 53.4 percent of voters accepted the "Eastern Europe Cooperation Act," which entitles the Government to spend one billion Swiss Francs on projects in primarily Central European states over the next ten years. Switzerland had pledged this contribution to share the burden of the EU's eastern expansion in order to facilitate the conclusion of the second set of bilateral negotiations with the EU. The government and the media welcomed Sunday's referendum outcome as evidence of voter "pragmatism": a majority of voters clearly wished to avoid antagonizing Brussels in spite of limited enthusiasm for the proposal at hand. The right-populist Swiss People's Party (SVP), which prompted the referendum, was disappointed, but pleased that it mobilized a 47 percent opposition. End summary.

New Step in Longer Pro-EU Trend

2.(U) The Eastern Europe Cooperation Act gives a new legal basis for Swiss aid to countries in Eastern Europe. The Act has a ten-year term and replaces the former federal Law on Aid to Eastern Europe, which came into force in 1995. Since the fall of the Berlin Wall, Switzerland has spent SFr 3.5 billion on about 1,000 aid projects in Central and Eastern Europe to help countries in the region transform into market economies.

3.(U) To date, Switzerland has agreed to 16 bilateral treaties with the European Union, encompassing also the ten countries which joined in 2004. The treaties cover a wide range of issues including trade, labor, transport, security, customs, and taxation. Deals on electricity and a free trade agreement on agriculture have also been proposed. The Swiss cabinet in 2004 pledged to provide SFr 1 billion to ten new EU member states, primarily Central and Eastern Europe, in order to facilitate conclusion of the second set of bilateral treaties with Brussels.

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Money for Eastern Europe, but under Swiss Control
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4.(U) Sixty per cent of the SFr 1 billion is to come from the budget of the departments of foreign and economic affairs, mainly from cuts in aid programs in other parts of the world. The remaining 40 percent will be taken from the regular budget of the federal administration. The funds, to be spent over the next ten years, are to be used on projects chosen by Switzerland and focusing on education, trade promotion, environment, and internal security. The money is paid directly to the projects and does not go the EU Cohesion Fund in Brussels. (Comment: Cohesion fund recipients Spain and Greece originally wanted a share of the Swiss contribution, but were rebuffed by the Swiss. End comment.)

5.(U) Switzerland has no formal agreement with the European Union. Instead, there is a Memorandum of Understanding that sets out the general conditions of the Swiss commitment to the ten new EU member states. Under the MOU, almost half of the funding will go to Poland. Hungary will benefit to the tune of SFr 131 million, while the Czech Republic will receive SFr 110 million. A majority in parliament endorsed the contribution last March and three of the four main parties have also come out in favor. However, the SVP challenged the decision and forced a nationwide referendum by collecting the necessary signatures.

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Government's "Yes" Campaign: "Good Investment"
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6.(U) The government launched its campaign supporting closer

cooperation with Central Europe at the end of September, calling the SFr 1 billion pledge a "good investment" benefiting not only the new EU states but also Switzerland. Foreign Minister Micheline Calmy-Rey described the contribution as an investment in the success of bilateral talks and an important condition for an effective policy towards the EU. Finance Minister Rudolph Merz said the government had solved the tricky issue of financing the contribution without imposing new taxes or running up additional debt. He acknowledged that negligible cuts would have to be made to Switzerland's development aid, but assured that the poorest countries would not be affected.

SVP "No" campaign: Financial Slippery Slope

7.(U) The right-populist SVP, which forced the nationwide vote on the issue, raised the specter of financial pressure from the EU. SVP Party President Ueli Maurer warned that the payment could prompt further financial demands from the EU and obligate Switzerland to incur unforeseen costs. He said the Swiss contribution meant wasting money abroad while getting little in return. Maurer argued that his party, which is known for its anti-EU stance, was not against the contribution in principle. However, he insisted that the SFr 1 billion had to be compensated fully from the budgets of the foreign and economics ministries. The SVP also wanted assurances that any possible Swiss payments to future EU members, including Bulgaria and Romania, were automatically put to a nationwide vote.

Other Referenda: Child Allowances et al

8.(U) Meanwhile, in a separate referendum, 68 percent of Swiss voters also approved a new Federal Law on Family Allowances, which harmonizes cantonal child allowance policies and introduces national minimum child benefits. Proponents of the law saw the tally as a clear mandate in support of families, whereas opponents deplored the extra cost of the new scheme, estimated at around 600 million Swiss francs annually, to be paid mainly by employers. There were also numerous cantonal and municipal referenda throughout Switzerland, including approval by the citizens of the cantons of Uri, Aargau, and Zug to lower corporate taxes considerably, with an eye to attracting foreign investment.

Comment: Pragmatism Rather Than Enthusiasm
------------------Q----------------------Q.(S BU) The approval of the "billion for the East" was indeed a sign of voter pragmatism and an endorsement of the government's policy of bilateral negotiations with the EU. After the vote on the first set of bilateral agreements (Bilaterals I) in May 2000 and the two separate votes last year on the extension of the free movement of people to the ten new EU members and Swiss participation in the EU's Schengen and Dublin accords, it was the forth consecutive victory for the Government's policy towards the EU. Although the Eastern Europe Cooperation Act is not legally linked to the Bilaterals II, the Swiss Government's pledge to contribute SFr 1 billion was the lubricant that helped break the deadlock in the negotiations and get Swiss business unfettered access to the potentially lucrative markets on the EU's eastern fringe. Consequently, both the government and media commentators rightly called the referendum outcome a vote of pragmatism rather than an expression of real enthusiasm. For a majority of Swiss voters, the danger of antagonizing Brussels, losing EU goodwill for further agreements, and stalling EU member state ratification of the Bilateral II package seemed too unpleasant to contemplate.

10.(SBU) For all the pragmatism, the percentage of Yes-votes was smaller than in the previous referenda on bilateral relations to the EU, and a closer look at the outcome at district level reveals large swathes of rural Switzerland that remain deeply skeptical of closer relations with the EU. This is all the more remarkable since the SVP, the only serious political force opposing the Eastern Europe Cooperation Act, undertook only limited campaigning to undo the deal. The SVP ascribed its reticence to a lack of funds, all the while running aggressive newspaper ads to kick-start its campaign for the fall 2007 elections. A more plausible explanation is that the SVP launched its referendum campaign mainly to burnish its anti-EU credentials and did not really want to win, for fear of putting off the business community so soon before the 2007 federal elections.

11.(SBU) Bilateral negotiations remain the only feasible way for Switzerland to deal with its neighbor and most important trading partner, the EU. Sunday's vote showed that the bilateral path is not a highway but a rocky road. Negotiations in view of the pending accession of Bulgaria and Romania could well turn out to be troublesome, and reaching an agreement on open markets for electricity and agricultural goods are likely to be protracted. Furthermore, the EU commission has repeatedly made clear that it considered the generous tax codes on corporations of some Swiss cantons as an unfair subsidy to foreign companies, and thus a violation of the 1972 Free Trade Agreement, whereas Switzerland considers itself fully compliant. On that score, the Sunday votes in cantons of Uri, Aargau, and Zug -- which all voted to lower tax rates in a new round of the increasingly fierce tax competition

between Swiss cantons -- did nothing to defuse the potential for
conflict.
Coneway